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Economic White Paper Upbeat About Economy

Every summer the Economic Planning Agency releases a white paper describing the performance of the Japanese economy over the past year and the prospects for the coming year. Themes in recent reports have become increasingly repetitive since Japan's economic expansion, which EPA identifies as having begun in late 1986, shows few signs of ending. EPA typically predicts the domestic-led expansion will continue, although it notes that protectionism abroad remains a threat. It adds that labor shortages are becoming a more serious problem, bringing with them the threat of inflation.

Every one of these themes, drawn from the 1989 report, reappeared in this year's edition. With the crisis in the Middle East coming too late for inclusion, EPA gave little attention to energy factors, thus forgoing an opportunity to rouse the attention of the Japanese public. (Subsequently, Shousuke Tanaka, director general of EPA's research bureau, indicated that the unrest in the Middle East would not necessarily have a major effect on the strength of the Japanese economy.)

Given this context, one would not normally expect this year's economic white paper to become a best seller, but such a view could be mistaken. Several

failure to win the contract could have a chilling effect on other foreign bidders, the Alaska Republican warned, especially in light of its solid credentials and expenditure of $1 million to prepare the bid.

The KIA decision also dimmed prospects for another American bid. Austin Co. of Cleveland and Kawasaki Heavy Industries, Ltd., considered by industry analysts a highly competitive team, joined to submit a bid for the airport's baggage-handling system. According to rumors in the Japanese press, a group led by Toyo Construction Co., Ltd., which includes Rapistan Co. and Portec Inc. of the United States, has the inside track on the $40 to $53 million contract. U.S. officials are pressing KIA to explain how it is handling the baggage system bids and what criteria it is using to evaluate them.

Undersecretary of Commerce for International Trade Michael Farren asked Tokyo to respond by August 13 to 11 questions about KIA's decision on the people-mover system. The gist of the Foreign Ministry's August 15 response was that the procedures outlined in the 1988 agreement that pertain to consulting services were followed in a transparent manner. The systems proposed by AEG Westinghouse and Niigata Engineering were similar in terms of quality and service but showed a large price differential. Finally, although Niigata Engineering does not have experience building airport people-mover systems, it has built many municipal transportation systems that are similar, according to the Foreign Ministry. At JEI press time the Commerce Department was examining the explanation and had not yet reacted.

After a period of relative calm, the latest KIA contract award has called into question Tokyo's commitment to the spirit and the letter of the 1988 accord, at least from Washington's viewpoint. Although the Ministry of Construction, the Fair Trade Commission and Japanese construction industry associations all have taken steps to allay foreign concerns, these measures appear to be insufficient. The Japanese press continues to carry stories about bid collusion and rumors of price-fixing in the construction industry. In light of Tokyo's commitment in the final report on the Structural Impediments Initiative talks to raise spending on infrastructure, U.S. pressure to ensure that foreign firms get a fair crack at Japan's public works market will only increase.

Jon Choy

Japan Keeps Thumb On Rising Health-Care Costs

Three abnormal occurrences helped Japan keep health-care disbursements from growing faster than gross national product in the fiscal year that ended March 31, 1989. The Y679.5 billion ($4.5 billion at Y150=$1.00) rise in national health expenditures that year to nearly Y18.8 trillion ($125 billion) amounted to only a 3.8 percent increase, while GNP in FY 1988 rose at a nominal rate of 6 percent. Shaving an estimated 0.7 percentage point off the increase were a national day of mourning, a new holiday and a statistical windfall that results every year after leap year. A July report by the Ministry of Health and Welfare credited these factors with helping hold the hike in health-care costs below nominal GNP growth for the first time since FY 1984.

In a nation that provides nearly universal health-care insurance coverage, even chance elements get credit for helping contain costs. The death of

the Showa Emperor in January 1989 resulted in his February funeral being declared a national holiday. While those already hospitalized were unaffected, one less day of medical service at private and public hospitals and clinics had an apparent impact on the health-care system. (Whether the emperor's months-long illness and heavy media coverage had a ripple effect in inspiring others to seek additional medical consultations was not mentioned.) The other two factors were the first celebration of a new May 4 holiday and FY 1988 statistics being compared to a leap year with its extra day of service possibilities. These aberrations, however, are less significant for the long term than efforts made to more strictly monitor billing and service to make sure that expenditures are appropriate.

Findings of improper billing (and insurers' subsequent refusal to pay) might be expected either to increase the patient's out-of-pocket payment or cut into the health-care provider's revenues. No figures are available for the latter option, but out-of-pocket expenditures increased only about 3 percent in FY 1988 and actually made up slightly less of the overall contribution (12.4 percent) than they did in FY 1987 (12.5 percent). The government's outlays for its mix of public and old-age assistance rose only about 2.4 percent, while payments from insurance associations (to which employers and employees both contribute) increased 4.7 percent.

The 12.4 percent of the total health-care bill covered by patients (see Tables 1 and 2) contrasts with the 21 percent paid out-of-pocket by Americans (Table 3), although the two health-care systems cannot be compared directly. Insurance coverage remains essentially voluntary in the United States -- with those not insured either tapping their own or government resources, while the Japanese system involves obligatory insurance coverage of some type plus co-payments. (For more details on Japan's health insurance system, see JEI Report No. 16A, April 21, 1989.) Out-of-pocket outlays in both countries refer to co-payments and independent expenditures but not mandatory contributions to health-insurance schemes. Given the different health-care systems and the obligations of each government, American policymakers might be surprised to see that both federal and state governments appear to pay a larger part of the overall health-care bill (42.1 percent) than does the Japanese government.

Table 1: Japan's Health-Care Receipts by Source of Funds, FY 1988

(in trillions of yen and billions of dollars*)

	Amount		Percent
	Yen	Dollars	of Total
Government	Y5.85	$45.6	31.2%
Insurance System**	10.53	82.1	56.2
Patient Out-of-Pocket	2.32	18.1	12.4
Other	0.05	0.4	0.2
Total Receipts	18.76	146.2	100.0

*Converted at FY 1988's average exchange rate of Y128.26=$1.00.

**Includes company and employee contributions.

Source: Ministry of Health and Welfare, July 1990.

Table 2: Japan's Health-Care Outlays by Type of Program, FY 1988

(in billions of yen and millions of dollars*)

	Amount		Percent
	Yen	Dollars	of Total
Public Assistance	¥1,110.1	$8,655.1	5.9%
Insurance Systems	10,327.9	80,523.2	55.1
Medical Insurance	9,979.0	77,802.9	53.2
Salaried Plan**	6,006.0	46,826.8	32.0
Employees	3,417.2	26,642.8	18.2
Dependents	2,588.8	20,184.0	13.8
Self-Insured Plan	3,973.0	30,976.1	21.2
Other***	348.9	2,720.3	1.9
Old-Age Insurance	5,000.2	38,984.9	26.7
Patient Expenses****	2,317.3	18,067.2	12.4
Patient Out-of-Pocket	347.9	2,712.5	1.9
Total Outlays	18,755.4	146,229.5	100.0

*Converted at FY 1988's average exchange rate of ¥128.26=$1.00.

**Includes public employees, teachers in both public and private schools, seamen under the seamen's insurance portion and municipal and other local government employees.

***Includes worker's compensation.

****Includes out-of-pocket expenses as well as payments made by any private insurance plan or other assistance not listed above.

Source: Ministry of Health and Welfare, July 1990.

Table 3: U.S. Health Outlays by Source of Funds and Type of Service, 1988

(in billions of dollars)

	Private			Government			
	Total	Patient	Private Insurer	Total	Federal	State/ Local	Total
Hospital Care	$96.6	$11.3	$75.0	$115.2	$86.7	$28.5	$211.8
Physician Care	70.0	19.9	50.0	35.2	28.7	6.4	105.1
Dental Services	28.7	16.3	12.4	0.7	0.4	0.3	29.4
Drugs and Related Nondurables	37.3	29.6	7.7	4.6	2.2	2.4	41.9
Nursing Home Care*	22.1	20.8	0.5	20.9	12.5	8.4	43.1
Total Outlays	312.4	113.2	174.9	227.5	157.8	69.6	539.9

*Includes other private-fund payments in the total from philanthropic or other sources.

Source: Office of National Cost Estimates, Health Care Financing Administration.

Both countries, however, face considerable future strain as those older than 65 make up a bigger portion of their populations. The health costs of this segment of society falls harder on government in Japan, perhaps, than in the United States, where supplemental insurance policies and copayment take some of the burden off of Medicare (the government-sponsored program on which U.S. elderly rely). Moreover, per capita health expenditures in Japan for those over age 65 are more than three-and-a-half times the average for all ages, whereas in the United States the bill for those 65 and up was not quite double the average for all ages (see Table 4). In addition, health costs in Japan for those aged 70 and over rose at a rate of 6.2 percent in FY 1988, considered a portent for the future. A government plan to cut back on long hospital stays, attributed primarily to the elderly, has meant the funding of new intermediate care institutions. In FY 1988 Tokyo spent Y3.5 billion ($23.3 million) on these facilities, a fraction of its overall outlays (see Table 5) but one deemed worth

Table 4: Per Capita Health-Care Expenditures in United States and Japan

(calendar 1988 for the United States, fiscal 1988 for Japan)

	United States			Japan		
		Insurance Premiums				
	Total	Private Insurance	Medicare	Yen	Dollars*	Percent of Total
All Ages	$1,298	$397	$77	Y133,600	$1,042	100.0%
Under 65	1,089	355	13	284,300	2,217	60.4
65 and Up	2,099	559	323	471,400	3,675	39.6
Over 70	n.a.	n.a.	n.a.	556,300	4,337	31.1

*Converted at FY 1988's average exchange rate of Y128.26=$1.00.

Sources: Office of National Cost Estimates, Health Care Financing Administration and Ministry of Health and Welfare

Table 5: Selected Japanese Health-Care Outlays, FY 1985-FY 1988

(in billions of yen)

	FY 1985	FY 1986	FY 1987	FY 1988
Inpatients	Y7,083.3	Y7,483.8	Y7,810.9	Y7,979.7
General Hospital	6,505.4	6,908.9	7,257.8	7,445.9
General Clinic	577.8	574.9	553.0	533.7
Outpatients	6,945.4	7,437.1	8,005.5	8,419.9
General Hospital	2,703.7	2,918.7	3,396.4	3,648.6
General Clinic	4,241.7	4,518.4	4,609.1	4,771.4
Prescriptions Filled by Drugstores*	309.4	348.5	394.2	425.6
Dental Care	1,677.8	1,799.6	1,865.3	1,926.8
Intermediate Institutional Care for the Elderly				3.5

*Most prescriptions are written and filled within clinics or hospitals and not by freestanding drugstores.

Source: Ministry of Health and Welfare

the initial cost if it succeeds in decreasing use of the more expensive hospitals for simple rehabilitation therapy and custodial care.

Whether lessons can be learned from the Japanese health-care system and applied in the United States, where national health-care expenditures climbed 10.4 percent in 1988 to a total of $539.9 billion, depends on how willing Washington may be to mandate health insurance to spread costs among more employers. Conversely, Tokyo may be interested in pushing harder for cost controls on medical care sought by those over 65, particularly given Japan's status as the nation with the highest longevity rates.

Pat Murdo

Second APEC Meeting Takes Small Steps Toward Solidifying Forum

The second meeting of the Asia Pacific Economic Cooperation conference -- 12 Pacific Rim nations that hope to boost regional economic cooperation -- broached organizational questions that had been avoided during the APEC founding conference a little less than a year ago. The July 30-31 gathering in Singapore addressed, but did not formally act on, membership for China, Taiwan and Hong Kong. Inclusion of the three economies was questioned in the initial APEC meeting. While there was some feeling that only market economies should be included in the grouping, there also were concerns that excluding China while admitting Hong Kong and Taiwan might intensify political frictions. APEC as set up in November 1989 includes Japan, the United States, Canada, South Korea, Australia and New Zealand as well as the members of the Association of Southeast Asian Nations -- Singapore, Malaysia, Indonesia, Thailand, Brunei and the Philippines.

Although the forum sidestepped concrete proposals for including China, Taiwan and Hong Kong, which were acknowledged as playing a significant economic role in the region, it was agreed that consultations should proceed to arrange their concurrent participation in APEC. Foreign Minister Taro Nakayama told the conference, "The real potential value of APEC cannot be realized without the participation of these three economies." It remains to be seen if terms can be reached that will be acceptable to all three; China's Foreign Minister Qian Qichen reportedly has said that Beijing would not object to the inclusion of Hong Kong or Taiwan as long as they were not given the same sovereign status as China.

Some of the issues raised in Singapore echoed those of the first meeting in Canberra; that first gathering stemmed from proposals for a Pacific regional economic grouping advanced separately in 1989 by Australian Prime Minister Bob Hawke and Secretary of State James Baker. (For details on the first APEC meeting see JEI Reports No. 43B, November 10, 1989, and No. 44A, November 17, 1989.) Although a communique issued on conclusion of the July meeting noted that the enhancement of APEC would complement and strengthen the Association of Southeast Asian Nations, some Asean members have cautioned that their organization's proven regional influence could be diluted by a new Asian Pacific economic body, particularly given the inclusion of the world's two largest economies, the United States and Japan. Speaking on the eve of the meeting's opening, Singapore Prime Minister Lee Kuan Yew described Asean and APEC as "concentric circles of cooperation, which can progress together." APEC participants